

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 /063 W
-----049332 251539Z /50

R 251404Z APR 78
FM AMCONSUL FRANKFURT
TO SECSTATE WASHDC 1739
INFO AMEMBASSY BONN
AMEMBASSY BERLIN
AMEMBASSY BUDAPEST
AMEMBASSY BELGRADE
AMEMBASSY BUCHAREST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY VIENNA
AMEMBASSY BRUSSELS
AMEMBASSY PARIS
USMISSION USNATO

C O N F I D E N T I A L FRANKFURT 3417

USEEC

USOECD

E.O. 11652: GDS
TAGS: EFIN, GW, HU
SUBJECT: NEW \$300 MILLION EUROBORROWING BY HUNGARY

REF: BUDAPEST 1542

1. FRANKFURT MANAGER CONTINENTAL ILLINOIS BANK
(CAREFULLY PROTECT ALL SOURCES) CONFIRMS
CONTINENTAL ILLINOIS LTD., A LONDON MERCHANT BANK, HAS
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RECEIVED MANDATE FOR A SEVEN YEAR \$300 MILLION
SYNDICATED EURODOLLAR LOAN TO NATIONAL BANK OF
HUNGARY, AS REPORTED IN REFTEL. THE MANAGEMENT
GROUP IS NOW BEING FORMED. REPAYMENT IS IN ROUGHLY
EQUAL SEMI-ANNUAL PAYMENTS FOLLOWING A FOUR YEAR
GRACEPERIOD. THIS SOURCE DESCRIBES SPREAD AT 5/8
PERCENT OVER LIBOR FOR FIRST THREE YEARS,

3/4 PERCENT OVER LIBOR FOR REMAINING FOUR YEARS.
MANAGEMENT FEES ARE APPROXIMATELY 3/4 PERCENT.

2. BANK OF AMERICA FRANKFURT-BASED MANAGER FOR EASTERN EUROPE EXPLAINED HIS BANK AND SEVERAL OTHER GERMAN AND AMERICAN INVITEES HAD ALL DECLINED TO GO BELOW A STRAIGHT 3/4 PERCENT OVER LIBOR WITH A 3/4 PERCENT MANAGEMENT FEE. HE BELIEVES CONTINENTAL ILLIONIS WILL HAVE A HARD TIME FINDING TAKERS AT THIS LOW SPREAD, VENTURING THAT RECAPTIVITY MIGHT BE STRONGEST AMONG SOME GERMAN AND JAPANESE BANKS.

3. FIRST CHICAGO FRANKFURT-BASED MANAGER FOR EASTERN EUROPE CLAIMS HIS BREAK-EVEN POINT FOR EASTERN EUROPE LENDING IS 5/8 PERCENT OVER LIBOR. IN HIS VIEW, CONTINENTAL ILLINOIS BROKE THE 3/4 PERCENT BARRIER IN ORDER TO ESTABLISH ITSELF WITH A MAJOR PLACEMENT IN EASTERN EUROPE. HE ALSO NOTED THAT THE CONTINENTAL ILLINOIS VIENNA -BASED MANAGER FOR SHORT TERM LENDING TO EASTERN EUROPE IS HUNGARIAN BORN, AND PLAYED A ROLE IN EFFECTING THIS LOAN. THE CHICAGO BANK SOURCE BELIEVES THIS LOAN WILL SUCCEED WITH DIFFICULTY, BUT CONTINENTAL ILLINOIS WILL HAVE TO CARRY AS MUCH AS \$60 MILLION ON ITS OWN ACCOUNT, DOUBLE THE ORDINARY PATTERN FOR THIS TYPE LOAN. HE FURTHER SEES A SUCCESS WITH THIS LOAN
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AS FORCING A FURTHER DOWNWARD RATCHET EFFECT, WITH HUNGARY RETURNING TO MARKET LATER IN 1978 FOR A SIMILAR AMOUNT AT A STRAIGHT 5/8 PERCENT OVER LIBOR.

4. DEUTSCHE BANK MANAGER FOR EASTERN EUROPE SEES HUNGARIANS STRONGLY INTERESTED IN GENERAL PURPOSE BORROWING FROM U.S. BANKS (A) TO BALANCE OFF HEAVY SHORT-TERM AND IMPORT FINANCING FROM GERMANS; AND (B) TO DRIVE RATE AS LOW AS POSSIBLE. LEHMANN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, BANK LOANS, EURODOLLAR
Control Number: n/a
Copy: SINGLE
Draft Date: 25 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978FRANKF03417
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780176-0781
Format: TEL
From: FRANKFURT USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780421/aaaaargn.tel
Line Count: 104
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2d1349a8-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 BUDAPEST 1542
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 19 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2862890
Secure: OPEN
Status: NATIVE
Subject: NEW \$300 MILLION EUROBORROWING BY HUNGARY
TAGS: EFIN, GE, HU
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/2d1349a8-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014